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SUBJ: MANITOBA HYDRO ANNOUNCES MAJOR ELECTRICITY DEAL WITH MINNESOTA

Ref: Ottawa 0135

OTTAWA 00000549 001.2 OF 002

¶1. This message originates from the U.S. Consulate in Winnipeg.

¶2. SUMMARY: The announcement of a major hydroelectricity purchase agreement between Minnesota Power and the Canadian province of Manitoba brings the development of some of the 5000 mw of hydroelectricity generation capacity in Manitoba's north an important step closer. Significant amounts of this hydroelectricity will be available to U.S. markets in the upper Midwest, if the trans-border transmission capacity exists to deliver it (reftel). END SUMMARY.

¶3. The decades-old logjam preventing the development of Manitoba's extensive hydroelectricity potential may have been broken with the announcement on January 29 of an agreement between Minnesota Power and Manitoba's government-owned hydroelectricity monopoly Manitoba Hydro. The deal between Manitoba Hydro and investor-owned Minnesota Power allows Minnesota Power to purchase surplus energy beginning this year, and commits it to a 15-year agreement to purchase 250 megawatts of hydroelectricity (worth a total of approximately $1 billion) beginning in about 2020. Minnesota Power provides electricity in a 26,000-square-mile electric service territory in northeastern Minnesota and provides wholesale electric service to 16 municipalities and retail service to 141,000 customers.

¶4. This agreement builds on a much more modest deal signed several years ago where Minnesota Power agreed to buy 50 mw of electricity from Manitoba Hydro from 2009-2015. Last year Manitoba Hydro exported C$592 million worth of electricity, mostly to the United States. Manitoba Hydro exports electricity to more than 30 electric utilities through participation in four wholesale markets in Canada and the Midwestern United States.

¶5. The new 250 mw sale will hasten construction of hydroelectric generating facilities in northern Manitoba that have long simmered on the backburner due to Manitoba Hydro's inability to attract a long-term commitment for the purchase of the power. Two generating stations have been proposed for the lower Nelson River, which flows

into Hudson Bay. Conawapa, a 1250 mw generating station, is further along in development, and is likely to be completed by 2021 at an estimated cost of $5 billion. Gull Rapids, a proposed 600 mw generating station, has been discussed with local Indian tribes, but no design plan has been developed yet. In addition, the smaller Wuskwatim generation project on the Burntwood River is ready for construction and is expected to come on-line in 2012, generating 200 mw of electricity for export.

¶6. The other major hurdle to development of Manitoba's hydroelectric potential has been the lack of transmission capacity to bring the power to markets in the upper Midwest and the Canadian heartland of Ontario. According to a Manitoba Hydro contact, there is sufficient excess capacity to move Manitoba's surplus power to Minnesota Power for now, but the parties plan to build a cross-border line to accommodate the 2020 sale of 250 mw of electricity. Our contact explained that under the terms of the deal with Minnesota Power, Qexplained that under the terms of the deal with Minnesota Power, Manitoba Hydro will likely be responsible for getting the electricity to the border, where it will link up with a transmission line constructed by Minnesota Power to bring the electricity into its grid.

What to do with the rest of the electricity?

¶7. Minnesota Power will not be able to use anywhere near the 1250 mw generated by the Conawapa project, so where would the rest of the electricity go? Manitoba Hydro projects that increases in in-province demand for electricity will utilize some of the additional power, and small increases in exports to other markets in neighboring Canadian provinces and U.S. states may take up some more of the excess. But clearly Manitoba Hydro will have surplus electricity in 2020, with more available if the Gull Rapids project comes on-line with 600 mw. Manitoba Hydro would welcome an expansion of transmission capacity: either east-west, to facilitate more exports to other provinces, or north-south, to enhance its export options. The electricity would be available to potential customers either in the upper Midwest or neighboring provinces, but there is not sufficient transmission capacity to get all of it to either market.

¶8. In recent years Manitoba and Ontario have studied the possibility of building an ambitious east-west line to get Conawapa power to

Ontario markets. Though the cost of this line would be daunting, the persistent lack of investment in the grid in border U.S. States has encouraged some Canadian players to advocate more east-west infrastructure as a way to open up Canada's undeveloped generating potential. The Manitoba-Minnesota agreement is a strong signal that long-term trade on the established cross-border pattern can facilitate Canadian resource development in the future as well as it has in the past.

WILKINS